


Advanced Credit Policy Module 3

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I. Chapter Notes for Chapter 5 of
Decisions

A. Credit Limit Defined

B. Face Validity and Credit Limits

C. Types of Credit Limits

1. Internal and external
2. Binding and nonbinding

D. Information Credit Limits (ICLs)

1. ICLs as triggers
for credit investigation
2. ICLs as internal to the seller

I. Chapter Notes for Chapter 5 (con't)

E. Risk Credit Limits (RCLs)

1. RCLs as binding constraints on exposure
2. Why increasing exposure by itself doesn't necessitate a RCL
3. Exposure, credit costs, and agency problems
4. Consumer credit, trade credit, and default probability

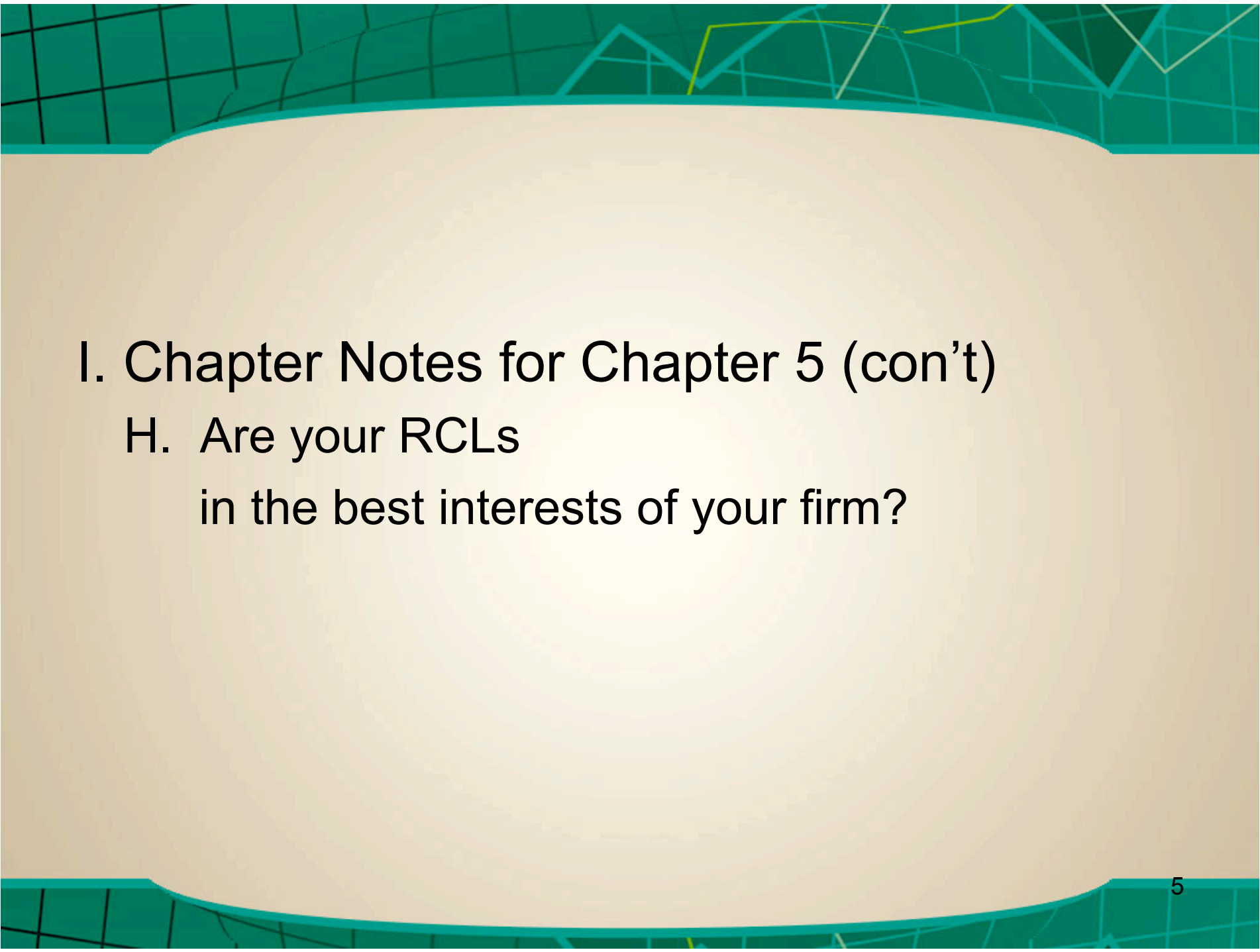
I. Chapter Notes for Chapter 5 (con't)

F. Three things about the customer that can necessitate an RCL

1. Overbuying when credit is available
2. Organizational stress due to expansion
3. Added sales are to riskier buyers

G. Three things about the seller that can necessitate RCLs on customers

1. The domino effect
2. Constraints on total receivables balance
3. Increasing production costs per unit

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- I. Chapter Notes for Chapter 5 (con't)
- H. Are your RCLs
in the best interests of your firm?

II. Chapter Notes for Chapter 9

A. Credit Policy and Competitive Strategy

B. Outsourcing Credit Functions

1. Functions that can be outsourced
2. Vendors for outsourced functions
3. Outsourcing and financing
4. Credit Insurance

II. Chapter Notes for Chapter 9 (con't)

C. Credit Strategies for Smaller Firms

1. Differences between small firms
and larger firms
 - a. Limitations in hiring
 - b. Access to capital markets
2. Results of differences
for credit policy

III. Chapter Notes for Chapter 8

A. The Need for Accurate Measures
of Outcomes – Measurement Error

B. Measuring Discount Expense
as a Percent of Sales

1. Construction of tables in the chapter
2. Illustration of measurement error
when sales fluctuate
3. Calculating discount expense
by month of origin

III. Chapter Notes for Chapter 8 (con't)

C. Measuring Collection Rates

1. Errors in DSO when sales fluctuate over time - calculating RROs and SWDSO
2. Errors due to mixing receivables made under different terms of sale
3. Errors due to time patterns of payments within the month - computing ADC

III. Chapter Notes for Chapter 8 (con't)

D. Measuring Bad Debt as a Percent of Sales

1. Matching bad debt to the period of origin
2. Averaging bad debt percent over time

E. Principles of Budgeting in Credit Administration

1. Appropriate budget figures depend on other budget figures
2. Budget targets depend on the circumstances of credit-granting
3. Budgets are targets
4. Small deviations may be noise

III. Chapter Notes for Chapter 8 (con't)

F. Four causes of differences

between budget targets and outcomes

1. Customer response misestimated
2. Policy was not implemented
3. Limited skills of credit analysts
4. Unrealistic goals

III. Chapter Notes for Chapter 8 (con't)

G. Variance Analysis of Accounts Receivable Balances

1. Difference in balances
due to sales and collections
2. Constructing the
hypothetical balance
3. Calculating the variances

You may now pause to do the problem

- If your webinar connection times out as you are doing the problem, refresh your web browser.
- To do this click the button on your web browser that looks like a circle with arrows
- The webinar will reload and you may fast forward to this point.

Table 8-1CA (abbreviated)
 RROs and SWDSOs for Intergalactic Products

Fourth Quarter
 1994 (12/31/94)
 Zefod Div. Prefect Div.

RROs:

Current Month	0.433	1.000
First Prior Month	0.152	0.500
Second Prior Month	0.045	0.250
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Sum of RROs	0.631	1.750
SWDSO (days)	18.93	52.50
Remaining SWDSOs:		
First Qtr. 1995	20.47	53.40
Second Qtr. 1995	21.36	54.00
Budgeted SWDSOs	17.1	56.1

Table 8-2CA (abbreviated)
 Variance Analysis of Accounts Receivable Balances
 Zefod Division, second quarter 1995
 (all currency figures in thousands of dollars)

Column:	2	4	5	6	7	8
Month	Bud. RRO	Actual Sales	Actual Balance	Act. RRO	Actual Sales Bud RROs	Col. Var.
Current Mo.	0.37	\$13,000	\$6,070	0.47	\$4,810	\$1,260
Prior Mo.	0.15	\$12,500	\$2,250	0.18	\$1,875	\$375
Snd. Prior Mo.	0.05	\$12,000	\$780	0.07	\$600	\$180
Totals	0.57	\$37,500	\$9,100	0.71	\$7,285	\$1,815
SWDSOs	17.1 days		21.36 days			